

**WASHINGTON STATE
OFFICE OF THE INSURANCE COMMISSIONER**



**FINANCIAL EXAMINATION
OF
NORTHWEST DENTISTS INSURANCE COMPANY
SEATTLE
NAIC CODE 32417
EXAMINATION AS OF DECEMBER 31, 2001**

**Participating States:
Washington**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of NORTHWEST DENTISTS INSURANCE COMPANY of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2001.



Patrick H. McNaughton, Chief Examiner

NORTHWEST DENTIST INSURANCE COMPANY
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SALUTATION

Seattle, Washington
June 3, 2004

The Honorable Kevin McCarty
Director of Insurance Regulation
Florida Department of Financial Services
Chair, NAIC Financial Condition (E) Committee
200 E. Gaines Street, Room 101
Tallahassee, FL 32399-0301

The Honorable John Morrison
Commissioner, Montana Department of Insurance
Secretary, Western Zone
840 Helena Avenue
Helena, MT 59601

The Honorable Mike Kreidler
Commissioner, Washington State Office of the Insurance Commissioner (OIC)
PO Box 40255
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with the statutes of the state of Washington, Chapter 48.03 Revised Code of Washington, an examination has been made of the corporate affairs and financial records of

NORTHWEST DENTISTS INSURANCE COMPANY
of
Seattle, Washington

hereinafter referred to as the "Company" or "NORDIC", at its home office located at 1730 Minor Avenue, Suite 1800, Seattle, Washington 98101. The following report on the examination is respectfully submitted showing the condition of the Company as of December 31, 2001.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1995. The current examination conducted by insurance examiners from the state of Washington covered the period from January 1, 1996 through December 31, 2001. Additional examination procedures and testing were performed based upon subsequent events through April 30, 2003. The examination was conducted in accordance with the laws and regulations of the state of Washington contained in Title 48 of the Revised Code of Washington (RCW) and Title 284 of the Washington Administrative Code (WAC) and the examination procedures recommended by the National Association of Insurance Commissioners (NAIC) found in the NAIC Financial Condition Examiners Handbook.

Corporate records and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. The Company's certified public accountant's work papers were reviewed and utilized, where possible, to support efficiency in the examination.

INSTRUCTIONS

Pursuant to the findings and conclusions of the examiners and actuary, in accordance with sound actuarial principles, Title 48 RCW, Title 284 WAC and the NAIC Accounting Practices and Procedures Manual (APPM) for Property and Casualty Insurance Companies, the Company is hereby instructed to comply with the following:

1. Adhere to NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manuals

The Master Custody Agreement does not contain a provision requiring "...the custodian to notify the Insurance Commissioner within three business days of termination or withdrawal of 100% of the account assets," pursuant to the guidelines in the NAIC Financial Examiners Handbook, Part 1, IV.H.2.f, Custodial Safekeeping Agreements.

Additionally, the Master Custody Agreement does not contain a provision requiring "...the custodian to secure and maintain insurance protection in an adequate amount pursuant to the guidelines in the NAIC Financial Condition Examiners Handbook, Part 1, IV.H.2.k, Custodial Safekeeping Agreements."

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the appropriate Annual Statement Instructions and the APPM promulgated by the NAIC for the completion of the annual statement. This includes the 2001 NAIC Financial Condition Examiners Handbook.

2. Errors In Annual Statement

The corporate bylaws were amended on October 19, 2001 with the addition of Article 3.17, Nominating Committee. The General Interrogatory disclosure in the Company's Annual Statement was answered incorrectly as "NO" changes were made.

The Company is instructed to comply with RCW 48.05.250 which requires the Company to file with the Insurance Commissioner a true annual statement of its financial condition, transactions, and affairs.

3. Written Authorizations

The Company currently retains Ballantyne, McKean & Sullivan, Limited (BMS) and Willis as its reinsurance broker. The Company could not provide the written authorization between itself and the reinsurance intermediary-broker, BMS and Willis. (Written authorization was obtained during the course of the examination.)

The Company is instructed to comply with RCW 48.94.015 and obtain a written authorization, specifying the responsibilities of each party.

4. Appointment of Committees

Article 3.13, Executive and Other Committees, of the bylaws says that the Board of directors (BOD), by resolution, may designate from among its members, an Executive Committee. The BOD may also, by resolution, designate other committees, consisting of other non-directors, but must contain at least one director. Action or recommendations by such committees are subject to ratification by the BOD at the next regular meeting.

Article 3.14 describes the composition and responsibilities of the Claims Committee. Article 3.15 describes the composition and responsibilities of the Underwriting Committee. Article 3.16 describes the composition and responsibilities of the Risk Management Committee.

An investment committee of the parent company routinely provides investment transaction reports to the NORDIC BOD, and the NORDIC BOD routinely ratifies those reports. There are no NORDIC BOD members on the PI Investment Committee.

The three other committees named above are separate committees of the NORDIC BOD and make periodic reports to the BOD. Each of the three dentist directors is the chairman on one of the three committees. The Washington State Dental Association appoints the other dentist members of those committees.

The NORDIC BOD has not noted, in its BOD meeting minutes, the appointment of members to any committees.

The Company is instructed to comply with the terms of its bylaws and RCW 23B.08.010 and RCW 23B.080.250 of the Business Corporation Act and designate appropriate committees of the BOD by resolution and appoint members to those committees consisting of at least one member of the BOD. Actions and recommendations of the committees of the board should also be ratified and noted in the BOD meeting minutes.

COMMENTS AND RECOMMENDATIONS

Pursuant to the findings and conclusions of the examiners:

1. Conflict of Interest Disclosures

The Company's legal counsel performs the review of the annual conflict of interest disclosure statements completed by board of director members, company officers and others in key management positions and reports any potential conflicts to the BOD. The BOD meeting minutes do not contain any acknowledgment that the conflict of interest statements have been completed, reviewed, or that any potential conflicts were reported to the BOD.

It is recommended that the BOD include an acknowledgement in its meeting minutes that the conflict of interest statements have been completed by all appropriate persons and potential conflicts of interest were reported to the BOD.

2. Election of Officers

Article 4.1 of the corporate bylaws requires the BOD to elect officers and Article 4.2 requires that the election should be annually at the first meeting of the BOD held after each annual meeting of the shareholder. There has been no election of officers reflected in the BOD minutes since November 13, 1998.

It is recommended that the BOD comply with the provisions of the Corporate Bylaws, Article 4.1 and 4.2, and annually elect officers of the Company.

HISTORY

Northwest Dentists Insurance Company is a Washington corporation and is a wholly owned subsidiary of Physicians Insurance A Mutual Company (Physicians Insurance, PI, or shareholder). Physicians Insurance was formerly Physicians Insurance Exchange. NORDIC was organized as a stock insurance company on May 10, 1989, and was granted a certificate of authority by the OIC on May 17, 1989. The Company was organized to provide comprehensive professional liability insurance to dentists practicing principally in the state of Washington.

The certificate of authority was amended February 27, 1990 to allow the Company to begin writing business owners policies covering insureds' business property. NORDIC also secured certificates of authority in Idaho (December 4, 1995) and Montana (May 15, 1996).

Capitalization: The Company's articles of incorporation originally authorized the issuance of 12 shares of \$100,000 par value common capital stock. A solicitation permit was issued for the same and all twelve (12) shares were issued for a purchase price in the amount of \$2,400,000 which was divided \$1,200,000 to capital and \$1,200,000 to paid-in surplus.

In February 1990, the authorized common capital stock was increased from twelve (12) shares to twenty-five (25) shares with the same \$100,000 par value. Three (3) shares were issued in April 1990 in exchange for \$600,000 consideration which was divided \$300,000 to capital and \$300,000 to paid-in surplus. Additionally, the parent company made a \$1,000,000 capital contribution during 1998 for the purpose of meeting minimum surplus requirements for the state of Oregon.

Minimum capital requirements are satisfied pursuant to RCW 48.05.340 with \$1,500,000 in capital and \$2,500,000 in contributed surplus as of December 31, 2001.

Dividends to Stockholders: Pursuant to RCW 48.31B.030(2)(a) and (b), without prior approval of the OIC, dividends to stockholders during the year 2001, were limited to the greater of ten percent (\$240,000) of the prior year surplus or net income (\$12,000) for the prior year, ending, December 31, 2000. The Company did not declare or pay any dividends to stockholders during the examination period.

NORDIC declared policyholder dividends in all of the years under examination. \$130,000 and \$175,000 were declared during 2001 and 2000 respectively. Dividends are distributed to all NORDIC policyholders.

MANAGEMENT and CONTROL

Board of Directors: Control of the Company is vested in the BOD consisting of seven members as of December 31, 2001. Three members are dentists in active practice who are members of the Washington State Dental Association and insured with NORDIC. Two members are physician directors of the shareholder and two members are physicians insured by the shareholder. BOD members are elected at the annual shareholders' meeting for a three-year term. Terms are staggered such that two persons are elected in each of two consecutive years and three persons are elected every third year. Persons elected to the BOD may serve only nine (9) years during a lifetime.

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Member Since</u>
Richard Terry Grubb, DDS Chairman of the Board	Dentist	1999
James Waters Pritchett, MD Vice Chairman of the Board	Medical Doctor	1998
Patricia Lynn Borman, MD	Medical Doctor	1999
Barry A. Feder, DDS	Dentist	2001
Robert Clarke Jeffers, MD	Medical Doctor	2000
Nola Mae Moore, MD	Medical Doctor	1993
David Gerhart Petersen, DDS	Dentist	2000

Officers: Officers are to be elected for a one-year term at the annual BOD meeting held immediately following the annual shareholder meeting pursuant to Article 4 of the Company bylaws. Officers were last elected November 13, 1998. (See "COMMENTS AND RECOMMENDATIONS" No. 2, Pg. 3.) Officers on December 31, 2001 were:

<u>Name</u>	<u>Position held</u>
Thomas Lee Myers	President and Chief Executive Officer
Judith Joan Mix	Secretary/Treasurer
Richard Edward Brown	Senior Vice President

Committees: The bylaws provide for an Executive, Claims, Underwriting, Risk Management and Nominating Committee. These named committees are separate committees of the NORDIC BOD. An Investment Committee is a combined committee with the affiliated companies, PI and WPIC. All committees met regularly, kept written records of their meetings and made regular reports to their respective company's BOD. Committee members were not regularly appointed. (See "INSTRUCTIONS" No. 4, Pg. 3.)

Conflict of Interest and Confidentiality Policy: The Company has a conflict of interest agreement and policy that requires the annual completion of a Conflict of Interest Agreement by officers, directors, and key employees. All are required to disclose to the corporate counsel relevant outside interests, memberships, associations, and affiliations. All appropriate persons have complied with this policy. Potential conflict of interest issues and confidential and proprietary information are provided to the BOD on a "need to know" basis as determined by the corporate counsel. There were no noted discussions in the BOD meeting minutes regarding the conflict of interest policy. It is recommended that the corporate counsel make an annual report to the BOD that the process has been completed and discuss relevant disclosures. (See "COMMENTS AND RECOMMENDATIONS" No. 1, Pg. 3.)

The examiners' review of the conflict of interest statement and confidentiality policy, and the Company's review process disclosed that the Company makes a concerted effort to protect the confidentiality of the Company strategy, all records, data and any other information of a private or sensitive nature and no conflicts have been disclosed.

CORPORATE RECORDS

The initial articles of incorporation were prepared in accordance with RCW 48.06.200, adopted by the BOD in April 1989, and filed with the Secretary of State of the state of Washington. The BOD amended the articles of incorporation in February 1990 and the amendment was filed with the OIC in accordance with RCW 48.07.070. There have been no other amendments to the articles of incorporation.

The corporate bylaws were initially adopted at incorporation in 1989. The Company restated its corporate bylaws for a second time on August 4, 1999, subsequent to the re-organization of its parent company from a reciprocal exchange to a mutual insurance company. The BOD amended the second restated bylaws in October 2001 adding a provision for a nominating committee. They were filed with the OIC. The amendment was not properly noted in the annual statement general interrogatories. (See "INSTRUCTIONS" No. 2, Pg. 2.) There have been no other amendments to the corporate bylaws since.

The BOD was active throughout the examination period. Meetings were well attended and the minutes were in sufficient detail and substance to demonstrate that the BOD members were actively involved in the administration of the affairs of the Company. All meetings were documented in written form, noting items of discussion and specific actions taken.

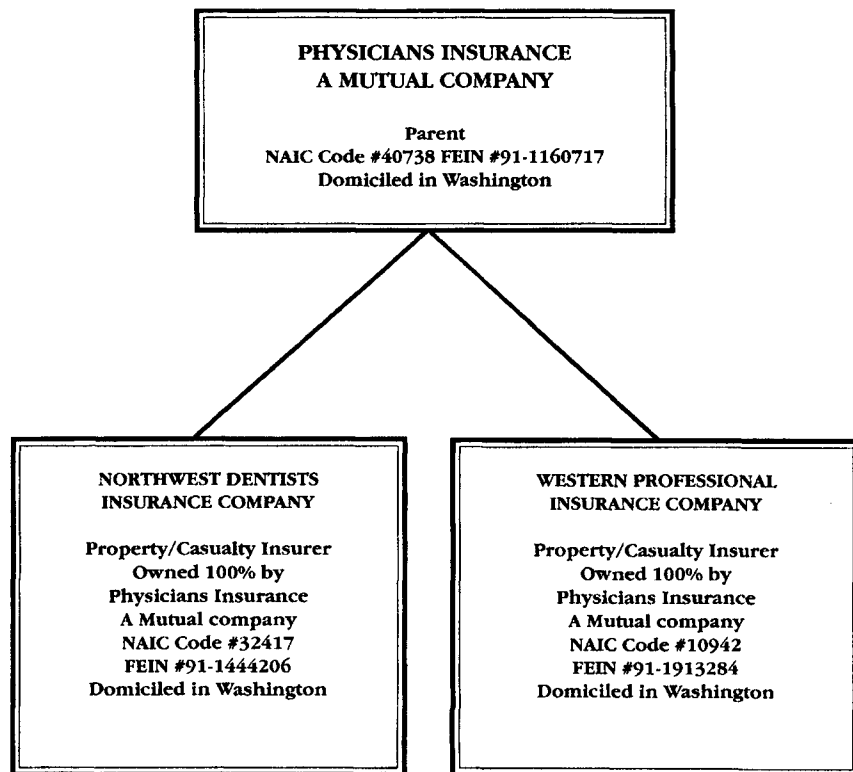
AFFILIATED INSURANCE COMPANIES

The following companies are all insurer members of a holding company group and have filed a registration statement under the provisions of Washington's Insurer Holding Company Act pursuant to Chapter 48.31B RCW. Annual Statement Instructions for Schedule Y, Part 2, do not require the disclosure of non-insurer affiliates, unless it is the parent company, or the transactions are equal to or greater than one-half of one percent of the total assets of the largest affiliated insurer. This reporting criteria is reflected in our examination report.

Physicians Insurance A Mutual Company (PI) is the reorganized company and it is commonly called by its registered trademark name of Physicians Insurance. PI provides comprehensive professional liability insurance to physicians practicing in Alaska, Idaho, Montana, Oregon and Washington.

Western Professional Insurance Company (WPIC) is a wholly owned subsidiary of Physicians Insurance A Mutual Company. WPIC was organized in 1998 to provide comprehensive professional liability insurance to hospitals for Washington, Oregon, and Montana risks. All business underwritten by WPIC is fully ceded to Physicians Insurance, except premiums related to the expense loading on facultative reinsurance.

Organization Chart: The following organization chart depicts the relationship of the insurer affiliates under the COMPANY holding company system as of December 31, 2001.



The Company is a participant in several inter-company agreements. As a member of an insurance company holding system, these have been filed pursuant to RCW 48.31B.025 with the OIC. As of December 31, 2001, the Company was party to the following agreements:

Management Agreement: The Company entered into a Management Agreement with Washington State Physicians Insurance Association (WSPIA) on June 23, 1998, wherein WSPIA agreed to serve as the general manager for the insurance issued by the Company. The agreement outlines the duties and responsibilities of each party and reimbursement of fees for the services performed. These duties and responsibilities were assumed by Physicians Insurance A Mutual Company.

Tax Allocation Agreement: The Company files a consolidated federal income tax return with its affiliated companies, Northwest Dentists Insurance Company, Western Professional Insurance Company, Association Insurance Services, Inc., and PHYSIS Corporation. The method of allocation among the affiliated companies is subject to a written agreement approved by the Board of Directors. The agreement calls for allocation of taxes based upon separate return calculations with current credit for net losses. All amounts payable or receivable will be made by way of journal entries to inter-company accounts established for this purpose. Inter-company tax balances are settled annually in the first quarter.

On a consolidated basis, there was no taxable income in 2001.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a Financial Institution Fidelity Bond. An aggregate loss limit of coverage in the amount of \$2,500,000 is provided for all of the affiliated companies insured and a single loss deductible is \$50,000. The minimum amount recommended by the NAIC for the three insurance companies is \$900,000 to \$1,000,000. The calculation indicates that the aggregate amount of coverage is adequate to cover the exposure risk of the Company and its affiliates.

The Company is also provided protection against certain property and liability losses as a named insured on several other policies.

Policies in effect at December 31, 2001 provided the following coverages:

- Directors and Officers Liability Insurance including Employment Practices Liability Coverage
- Commercial General Liability
- Commercial Umbrella Liability Policy

The Company does not have any "Errors and Omissions" coverage. The Company has chosen to be self insured for this hazard and risk.

The Directors and Officers Liability and Employment Practices Liability policy is written in the name of "Physicians Insurance" as the parent company. This name is a registered trademark and is often used synonymously with the parent's official name "Physicians Insurance A Mutual Company".

The review of the Company's insurance policies indicated that adequate insurance coverage has been purchased and is in force covering the hazards to which the Company is exposed as of the examination date.

EMPLOYEES' BENEFIT PLANS

Physicians Insurance A Mutual Company is the employer for all affiliated companies. Salaries and benefits are allocated to the three affiliated insurance companies based upon management and allocation agreements: 75% to PI, 15% to WPIC, and 10% to NORDIC.

Employees who are twenty-one years old and have completed one month of service are eligible to participate in two defined contribution plans. For 401(k) participants, employees may make pre-tax contributions up to 8% of their base compensation per year, to which the Company will match these contributions up to 6.6% of the employees' base compensation. The Company currently contributes 10% of the employees' base compensation to the Money Purchase Plan and employees may make voluntary after-tax contributions to the plan.

Vesting requirements are five years of service for 100% of the employer's contribution and immediate vesting for 100% of the employee's contribution.

The Company also provides other plans and benefits to its employees such as Medical and Dental Insurance, Life Insurance and Accidental Death and Dismemberment Insurance, Long-Term Disability, Travel Accident Insurance, Employee Assistance Program (EAP), Workers' Compensation Insurance, Education and Course Reimbursement. The Company also offers

the usual options for time off from work including vacation, holidays, sick leave and other leaves of absence.

TERRITORY AND PLAN OF OPERATION

Northwest Dentists Insurance Company was granted a certificate of authority in the state of Washington on May 17, 1989 which authorized the Company to provide primarily comprehensive professional liability insurance to dentists practicing principally in the state of Washington. During 1990, that certificate of authority was amended to allow the company to begin writing business owners policies, covering insureds' business property. NORDIC is also licensed in the states of Idaho (as-of December 4, 1995) and Montana (as-of May 15, 1996).

GROWTH OF COMPANY

The following are the Company's historical direct writings:

Direct Premiums Written by State (Schedule T – Premiums)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Washington	\$2,551,493	\$2,737,180	\$3,053,856	\$3,234,124	\$3,322,104
Montana	2,197	6,787	3,698	3,608	4,622
Idaho	3,611	7,265	5,028	5,434	6,256
	<u>\$2,557,301</u>	<u>\$2,751,232</u>	<u>\$3,062,582</u>	<u>\$3,243,166</u>	<u>\$3,332,982</u>

Direct Premiums Written by Line of Business

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Commercial Multiple Peril	\$701,067	\$787,432	\$926,467	\$1,027,063	\$1,066,586
Medical Malpractice	1,856,234	1,963,800	1,998,882	2,075,501	2,120,693
Other Liability			137,233	140,602	145,703
	<u>\$2,557,301</u>	<u>\$2,751,232</u>	<u>\$3,062,582</u>	<u>\$3,243,166</u>	<u>\$3,332,982</u>

The Company is appropriately licensed for the lines of business it writes.

ACTUARIAL REVIEW

The reserves were reviewed by the casualty actuarial staff employed by the OIC. The Commissioner's actuarial staff was able to create loss and loss adjustment expense development triangles by policy year, net of reinsurance, as of December 31, 2002, from data provided by Company personnel. (In other words, the data included 12 months of development subsequent to the examination period.) Company personnel provided additional information by electronic mail, by telephone, and in a face-to-face meeting. Actuarial staff also reviewed an actuarial report prepared by the Company's consulting actuarial firm, Tillinghast-Towers Perrin.

Based on their analysis of data through December 31, 2002, the Commissioner's actuarial staff concluded that the Company's booked reserves for unpaid losses and unpaid loss adjustment expenses as of December 31, 2001, are within a reasonable range. Therefore, the reserves are accepted as shown in the 2001 Annual Statement.

REINSURANCE PROGRAM

The Company has the following reinsurance in effect as of December 31, 2001:

Reinsurance Ceded:

The Company has entered into reinsurance agreements with authorized reinsurers for the following protection:

<u>Type of Contract</u>	<u>Retention Level</u>	<u>Reinsurance Limits</u>
First Excess of Loss	\$ 500,000	\$2,500,000 Ultimate net loss; Each loss.
Combined Risk and Contingent Excess of Loss	\$3,000,000 \$2,000,000	\$3,000,000 Ultimate net loss; Each loss. Each insured.
Second Contingent Excess of Loss	\$6,000,000	\$9,000,000 Ultimate net loss; Each loss.
Catastrophe "Awards Made" Excess of Loss	\$15,000,000	\$25,000,000 Ultimate net loss; Each loss.
Business Owner's Policy 70% Quota Share	\$30% of Each Policy	70% of Coverage levels.
Employment Practice Liability Defense Quota Share	50%	\$25,000 for each claim or annual annual policy aggregate limit.

The above contracts have the standard insolvency clause wording required by the Washington Insurance Code to minimize Company risk. The Company does not do business with unauthorized reinsurers. However, there is one unauthorized reinsurer participating in a contract in run off status for which an appropriate letter of credit is in place. An immaterial balance is payable.

INFORMATION SYSTEMS AND ACCOUNTING RECORDS

The management of Physicians Insurance, as provider of information systems technology and services to NORDIC, is sufficiently knowledgeable of EDP issues and provides direction and oversight through its Steering Committee. New systems development, acquisition and maintenance controls have been reviewed to gain assurance that programs and systems are designed, tested, approved and implemented using appropriate controls. The internal controls in place provide for the proper separation of duties.

Operations controls and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the controls exercised to maintain data security. Adequate procedures and controls are in place for mainframe and network operations.

SUBSEQUENT EVENTS

Since the examination date, Thomas L. Myers, President and Chief Executive Officer announced his retirement.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2001, as determined by this examination:

Balance Sheet
As of December 31, 2001

Comparative Balance Sheet
Years Ended December 31, 2000 and 2001

Statement of Income
As of December 31, 2001

Comparative Statement of Income
Years Ended December 31, 2000 and 2001

Capital and Surplus Account
As of December 31, 2001

Comparative Capital and Surplus Account
Years Ended December 31, 2000 and 2001

NORTHWEST DENTISTS INSURANCE COMPANY

BALANCE SHEET AS OF DECEMBER 31, 2001

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>Notes</u>
<u>ASSETS</u>				
Bonds	\$11,092,764		\$11,092,764	1
Cash and short-term investments	1,111,569		1,111,569	2
Agents' balances or uncollected premiums:				
Premiums in course of collection	2,219		2,219	
Reinsurance recoverable	204,157		204,157	
Federal income tax recoverable	82,945		82,945	3
Interest and dividend income due and accrued	164,583		164,583	
	<u>\$12,658,237</u>	<u>\$0</u>	<u>\$12,658,237</u>	
Total assets	<u>\$12,658,237</u>	<u>\$0</u>	<u>\$12,658,237</u>	
<u>LIABILITIES</u>				
Losses	\$2,520,756		\$2,520,756	4
Loss adjustment expenses	967,769		967,769	4
Other expenses (excluding taxes, licenses & fees)	576,173		576,173	
Taxes, licenses & fees (excl. fed. inc. tax)	4,855		4,855	
Unearned premiums	100,000		100,000	5
Dividends declared and unpaid:				
Policyholders	130,000		130,000	
Ceded reinsurance premiums payable	416,028		416,028	
Payable to parent, subsidiaries and affiliates	159,733		159,733	
Aggregate write-ins for liabilities	1,128,821		1,128,821	6
	<u>6,004,135</u>	<u>0</u>	<u>6,004,135</u>	
Total liabilities	<u>6,004,135</u>	<u>0</u>	<u>6,004,135</u>	
<u>SURPLUS AND OTHER FUNDS</u>				
Common capital stock	1,500,000		1,500,000	
Gross paid in and contributed surplus	2,500,000		2,500,000	
Unassigned funds (surplus)	2,654,102		2,654,102	
	<u>6,654,102</u>	<u>0</u>	<u>6,654,102</u>	
Surplus as regards policyholders	<u>6,654,102</u>	<u>0</u>	<u>6,654,102</u>	
Total liabilities, surplus and other funds	<u>\$12,658,237</u>	<u>\$0</u>	<u>\$12,658,237</u>	

NORTHWEST DENTISTS INSURANCE COMPANY
COMPARATIVE BALANCE SHEET
AS OF DECEMBER 31,

	<u>2001</u>	<u>2000</u>
<u>ASSETS</u>		
Bonds	\$11,092,764	\$10,458,597
Cash and short-term investments	1,111,569	2,598,161
Agents' balances or uncollected premiums:		
Premiums in course of collection	2,219	6,568
Reinsurance recoverable	204,157	33,059
Federal income tax recoverable	82,945	
Interest and dividend income due and accrued	164,583	146,330
	<hr/>	<hr/>
Total assets	<u>\$12,658,237</u>	<u>\$13,242,715</u>
 <u>LIABILITIES</u>		
Losses	\$2,520,756	\$2,817,728
Loss adjustment expenses	967,769	924,335
Other expenses (excluding taxes, licenses & fees)	576,173	536,640
Taxes, licenses & fees (excl. fed. Inc. tax)	4,855	6,569
Fed. and foreign inc. taxes (excl. def. taxes)		53,567
Unearned premiums	100,000	100,000
Dividends declared and unpaid:		
Policyholders	130,000	175,000
Ceded reinsurance premiums payable	416,028	353,141
Provision for reinsurance		4,000
Payable to parent, subsidiaries and affiliates	159,733	111,699
Payable for securities		682,205
Aggregate write-ins for liabilities	1,128,821	1,078,083
	<hr/>	<hr/>
Total liabilities	<u>6,004,135</u>	<u>6,842,967</u>
 <u>SURPLUS AND OTHER FUNDS</u>		
Common capital stock	1,500,000	1,500,000
Gross paid in and contributed surplus	2,500,000	2,500,000
Unassigned funds (surplus)	2,654,102	2,399,748
	<hr/>	<hr/>
Surplus as regards policyholders	<u>6,654,102</u>	<u>6,399,748</u>
	<hr/>	<hr/>
Total liabilities, surplus and other funds	<u>\$12,658,237</u>	<u>\$13,242,715</u>

NORTHWEST DENTISTS INSURANCE COMPANY

STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2001

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<u>UNDERWRITING INCOME</u>			
Premiums earned	\$2,142,586	\$0	\$2,142,586
DEDUCTIONS:			
Losses incurred	1,299,256		1,299,256
Loss expenses incurred	811,396		811,396
Other underwriting expenses incurred	554,005		554,005
Total underwriting deductions	2,664,657	0	2,664,657
Net underwriting gain or (loss)	(522,071)	0	(522,071)
<u>INVESTMENT INCOME</u>			
Net investment income earned	720,520		720,520
Net realized capital gains or (losses)	86,976		86,976
Net investment income gain or (loss)	807,496	0	807,496
<u>OTHER INCOME</u>			
Net gain or loss from agents' or premium balances charged off	(2,572)		(2,572)
Finance and service charges not included in premiums	14,684		14,684
Total other income	12,112	0	12,112
Net income before dividends to policyholders and before federal and foreign income taxes	297,537	0	297,537
Dividends to policyholders	130,128		130,128
Net income before federal and foreign income taxes	167,409	0	167,409
Federal and foreign income taxes incurred	92,919		92,919
Net income	<u>\$74,490</u>	<u>\$0</u>	<u>\$74,490</u>

NORTHWEST DENTISTS INSURANCE COMPANY
COMPARATIVE STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

	<u>2001</u>	<u>2000</u>
<u>UNDERWRITING INCOME</u>		
Premiums earned	\$2,142,586	\$2,189,272
DEDUCTIONS:		
Losses incurred	1,299,256	1,321,085
Loss expenses incurred	811,396	825,569
Other underwriting expenses incurred	554,005	521,538
Total underwriting deductions	2,664,657	2,668,192
Net underwriting gain or (loss)	(522,071)	(478,920)
<u>INVESTMENT INCOME</u>		
Net investment income earned	720,520	704,786
Net realized capital gains or (losses)	86,976	
Net investment income gain or (loss)	807,496	704,786
<u>OTHER INCOME</u>		
Net gain or loss		
from agents' or premium balances charged off	(2,572)	(472)
Finance and service charges		
not included in premiums	14,684	14,221
Total other income	12,112	13,749
Net income before dividends to policyholders and		
before federal and foreign income taxes	297,537	239,615
Dividends to policyholders	130,128	174,111
Net income before federal and foreign income taxes	167,409	65,504
Federal and foreign income taxes incurred	92,919	53,567
Net income	<u>\$74,490</u>	<u>\$11,937</u>

NORTHWEST DENTISTS INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
AS OF DECEMBER 31, 2001

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Surplus as regards policyholders, December 31, previous year	<u>\$6,399,748</u>	<u>\$0</u>	<u>\$6,399,748</u>
<u>GAINS AND (LOSSES) IN SURPLUS</u>			
Net income	74,490		74,490
Change in provision for reinsurance	4,000		4,000
Cumulative effect of change in accounting principles	<u>175,864</u>		<u>175,864</u>
Changes in surplus	<u>254,354</u>	<u>0</u>	<u>254,354</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$6,654,102</u></u>	<u><u>\$0</u></u>	<u><u>\$6,654,102</u></u>

COMPARATIVE CAPITAL AND SURPLUS ACCOUNT
AS OF DECEMBER 31,

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Surplus as regards policyholders, December 31, previous year	<u>\$6,399,748</u>	<u>\$6,369,811</u>	<u>\$6,108,457</u>	<u>\$4,900,928</u>	<u>\$4,779,412</u>
<u>GAINS AND (LOSSES) IN SURPLUS</u>					
Net income	74,490	11,937	283,354	207,529	121,516
Change in provision for reinsurance	4,000	18,000	(22,000)		
Cumulative effect of change in accounting principles	175,864				
Surplus adjustments				<u>1,000,000</u>	
Changes in surplus	<u>254,354</u>	<u>29,937</u>	<u>261,354</u>	<u>1,207,529</u>	<u>121,516</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$6,654,102</u></u>	<u><u>\$6,399,748</u></u>	<u><u>\$6,369,811</u></u>	<u><u>\$6,108,457</u></u>	<u><u>\$4,900,928</u></u>

NOTES AND COMMENTS TO FINANCIAL STATEMENTS

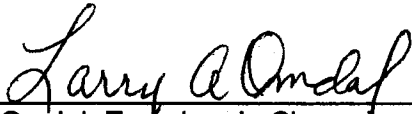
1. **BONDS** in the amount of \$11.0 million represent 87.6% of total assets; an increase of 5% from the year 1999. Bonds are stated at amortized cost, secured, and not in default as to principle and interest. The Company accrues discounts and amortizes premiums using the scientific method. Mortgage-backed securities are adjusted using the prospective method.
2. **CASH AND SHORT TERM INVESTMENTS** are \$1.1 million and 8.8% of total assets. Short term investments with maturity dates of one year or less, consisted of two NAIC Class 1 money market mutual funds valued at \$838,000. Cash items consisted primarily of demand deposits with maturities of 90 days or less.
3. **FEDERAL INCOME TAX RECOVERABLE** is \$82,945. The Company files a consolidated return with its parent Physicians Insurance A Mutual Company and affiliates. The method of allocation among the companies is subject to written agreement approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Inter-company balances are settled annually in the first quarter of the following year.
4. **LOSSES AND LOSS ADJUSTMENT EXPENSES** are respectively reported as \$2,520,756 or 19.9% and \$967,769 or 4.5% of total assets as of December 31, 2001.
5. **UNEARNED PREMIUMS** are \$100,000 or 0.79% of total assets. Generally, most policies are written with a January 1 effective date and would be fully earned at year end. An adjustment was made to unassigned surplus in 2001 to conform with the newly implemented NAIC Statements of Statutory Accounting Principals. The cumulative effect of this adjustment was \$175,863. Additionally, the Company reclassified its reserve for free-tail coverage for loss reserve to unearned premium. There is no income effect as a result of the reclassification. The impact of the change reduces prior year loss reserves by \$100,000 and increases prior year unearned premium by \$100,000.
6. **AGGREGATE WRITE-INS FOR LIABILITIES** are \$1,128,821 or 8.9% of total assets. The total amount represents premiums received in advance. Nearly all of NORDIC's policies are annual and most have a common inception date of January 1st. Policies issued mid-year are partial year policies expiring on December 31 to maintain the common inception date for the book of business. Billing occurs prior to year end and payments are generally received prior to the January 1st due date. The premium accounting system tracks premiums received in advance and nets them against premiums receivable. The Company makes a reclassification entry from premiums receivable to aggregate write-ins in order to not distort actual premiums receivable.

ACKNOWLEDGMENT

Acknowledgement is hereby made of the cooperation extended to the examiners by the officers and employees of Northwest Dentists Insurance Company during the course of this examination.

In addition to the undersigned, Constantine Arustamian, CPA, Insurance Examiner, Friday Enoye, Insurance Examiner, Juanita Turley, Insurance Examiner, John Gaynard, AFE, CPA, CPCU, Insurance Examiner and Reinsurance Specialist, John Jacobson, AFE, Supervisor and EDP Specialist, Lee Barclay, FCAS, MAAA, ARM, Senior Actuary and Jim Antush, Actuarial Analyst, all from the Office of Insurance Commissioner of the State of Washington, participated in the examination and preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Larry A. Omdal", is written over a horizontal line.

Larry A. Omdal, Examiner in Charge
State of Washington

AFFIDAVIT

State of Washington)
) ss.
County of King)

Larry A. Omdal, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Northwest Dentist Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Office of the Insurance Commissioner of the State of Washington and the National Association of Insurance Commissioners.

Larry A. Omdal
Larry A. Omdal, Examiner in Charge
State of Washington

Subscribed and sworn to before me on this 3rd day of June, 2004.

Colleen Janzen
Notary Public in and for the
State of Washington,
Residing at Seattle

